

OFFICIALS OF THE CITY OF DETROIT

Executive (Elected)

Mayor
KWAME M. KILPATRICK
(Term Commences January 1, 2002)

DENNIS W. ARCHER
(Term Expires December 31, 2001)

Legislative (Elected)

City Council

MARYANN MAHAFFEY, President

KENNETH V. COCKREL, JR.
President ProTem

SHEILA M. COCKREL

NICHOLAS HOOD, III
(Term Expires December 31, 2001)

BRENDA M. SCOTT

ALONZO W. BATES (Term Commences January 1, 2002)

BARBARA-ROSE COLLINS (Term Commences January 1, 2002)

CLYDE CLEVELAND
(Term Expires December 31, 2001)

KAY EVERETT

GILL HILL
(Term Expires December 31, 2001)

ALBERTA TINSLEY-TALABI

SHARON McPHAIL (Term Commences January 1, 2002)

City Clerk

JACKIE L. CURRIE

Other Executive Officials (Appointed)

SEAN K. WERDLOW
Chief Financial Officer/Finance Director
(Appointment Commences January 1, 2002)

J. EDWARD HANNAN
Finance Director
(Appointment Expires December 31, 2001)

GENE P. MOSS
Deputy Finance Director
(Appointment Expires December 31, 2001)

NETTIE SEABROOKS
Chief Operating Officer - Chief of Staff
(Appointment Expires December 31, 2001)

CHRISTINE BEATTY
Chief of Staff
(Appointment Commences January 1, 2002)

MATTHEW A. GRADY
Deputy Finance Director
(Appointment Commences January 28, 2002)

RICARDO A. KISNER, CPA
Chief Accounting Officer

January 9, 2002

THE HONORABLE MAYOR AND CITY COUNCIL:

In accordance with Section 4-205 of the City Charter, we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Detroit (the City) for the fiscal year ended June 30, 2001 and the Report of Independent Public Accountants. The CAFR is prepared in accordance with pronouncements of the Governmental Accounting Standards Board (GASB) and the State of Michigan Treasury Department. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation including all disclosures, rests with the City's Finance Department. The CAFR fairly presents the financial position and results of operations of the City, including all disclosures. Accordingly, we believe that the information, as presented, is accurate in all material respects.

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes the City's organizational chart, a list of principal officials and this transmittal letter. The financial section includes the general purpose financial statements and the combining and individual fund, component unit and account group financial statements and schedules, as well as the Report of Independent Public Accountants. The statistical section includes selected financial and demographic information about the City, generally presented on a multi-year basis.

The City of Detroit is required to undergo an annual single audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments and non-profit organizations*. Information related to this single audit, including a schedule of expenditures of federal awards, a summary schedule of prior audit findings, audit report(s) regarding the grantee's financial statements, internal control, compliance, findings and questioned costs, and audit results and a corrective action plan to address any findings, is presented in a separately issued single audit report.

GOVERNMENTAL STRUCTURE

The City, incorporated in 1806, is a home rule city under state law. The organization of the City is separated into two branches, the executive branch, which is headed by the Mayor and the legislative branch, which is composed of the City Council and its agencies. Other agencies (City Clerk and Election) are not classified under the two branches. Additionally, the City Charter provides for an independent City Clerk who serves as clerk to the City Council and chairperson to the Election Commission. The City provides the following services: public protection, public works, cultural and recreational, civic center, health, physical and economic development, public lighting, transportation, water supply and sewage disposal, human services (including housing), airport and parking.

The elective officers of the City are the Mayor, the City Clerk, and the nine members of the City Council, which have been elected at-large since 1918. The terms for all elective City officers is four years and commences at noon on the first day of January after the regular general election. The last City general election occurred on November 6, 2001. The incumbent Mayor, Dennis W. Archer, did not seek re-election. Kwame M. Kilpatrick began serving as Mayor on January 1, 2002. In addition, three new Council Persons (Alonzo W. Bates, Barbara-Rose Collins and Sharon McPhail) replaced Clyde Cleveland, Gill Hill, and Nicholas Hood III.

The City Charter grants the Mayor broad managerial powers including the authority to appoint department directors, deputy directors, and other executive branch officials. The responsibility for implementation of most programs, services, activities, and day-to-day operations are delegated by the Charter to the executive branch. However, many material decisions, including budget appropriations, procurement of goods and services, and certain policy matters must be approved by the City Council. The Mayor has veto power over Council decisions, but may be overridden by a two-thirds vote of the members of the City Council.

THE REPORTING ENTITY

This CAFR includes all funds and account groups of the primary government as well as its component units. Component units are legally separate organizations for which the elected officials of the City are financially accountable, or the relationship to the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Various potential component units were evaluated to determine whether they should be included in the City's reporting entity in accordance with GASB Statement Number 14 - *The Financial Reporting Entity*.

The following criteria were utilized to determine whether a component unit should be part of the entity of the City (primary government):

- Selection of governing body.
- City's ability to impose its will.
- The potential benefit or financial burden that can be imposed on the City.
- Whether the financial statements of the City would be misleading if data from the component unit were not included.

Based on this criteria, the Detroit Building Authority, although legally a separate entity, is considered a blended component unit since its financial data is required to be blended with the City to present the financial results of the primary government.

In addition, some legally separate entities' relationships with the City are such that they should be reported along with the City's financial data, but not blended. Such entities are considered as discretely presented component units and their financial data is presented separate from the primary government. The entities that are discretely presented are the Downtown Development Authority, Economic Development Corporation, Local Development Finance Authority, Museum of African American History, Tax Increment Finance Authority, Detroit Transportation Corporation, the Greater Detroit Resource Recovery Authority and the School District of the City of Detroit.

ECONOMIC CONDITION AND OUTLOOK

Detroit is located in Wayne County, which is in the southeastern section of the Lower Peninsula. The City covers approximately 140 square miles and is the largest city in the State of Michigan, accounting for nearly half the population of Wayne County. According to the U.S. Department of Commerce's 2000 National Data Book, the City of Detroit is now the nation's tenth largest city, and is the center of the nation's eighth largest consolidated metropolitan statistical area (CMSA). The City is internationally known for its automobile manufacturing and trade. The southeastern border of the City is an international waterway composed of the Detroit and St. Clair Rivers, which are linked via the St. Lawrence Seaway to more than 200 seaports around the world.

The decennial census of population is an important factor in the determination of amounts granted under various Federal and State programs. In addition, certain authority is granted to the City of Detroit by State law based upon population thresholds. The City's authority to levy the Utility Users Tax and the current level of Municipal Tax was dependent on a census population of 1,000,000 or more. This taxing authority was changed to cities with a population of 750,000 or more.

According to the U. S. Census Bureau, in census 2000, 281.4 million people were counted in the United States, a 13.2 percent increase from the 1990 census population of 248.7 million. The population growth of 32.7 million people between 1990 and 2000 represents the largest census-to-census increase in American history. The State of Michigan is located in the Midwest region where the population grew by 7.9 percent, compared to a 19.7 percent growth rate for the West region, and a U. S. rate of 13.2 percent. Between 1950 and 2000, the Midwest's share of the total population fell from 29 to 23 percent.

The ten most populous states contained 54 percent of the population in 2000, while the ten least populous states accounted for only 3 percent of the U. S. population. The population of the State of Michigan increased from 9,295,297 to 9,938,444 from 1990 to 2000, a 6.9 percent increase. The population of the Detroit Metropolitan Statistical Area increased from 5,187,171 to 5,456,428, a 5.2 percent increase. This is still the nation's eight largest metropolitan area. Detroit remains as the nation's tenth largest city. Eight of the ten largest cities gained population

in the 1990's; only Philadelphia and Detroit declined in size. Detroit's population declined from 1,027,974 in 1990 to 951,270 in 2000, a decrease of 76,704 (-7.5 percent).

Industry jobs grew by 12.0 percent in the Detroit Region from 1994-2000, slightly higher than the statewide pace of expansion. Annual growth rates in employment have slowed in the latter half of the decade. Payroll jobs rose by just 3.3 percent from 1996-1998, and by 3.1 percent from 1998-2000. Employment gains from 1994-96 were a more substantial 5.2 percent.

During fiscal year ending June 30, 2000, the economy began slowing with the drop in stock market prices. The condition seemed temporary and the Federal Reserve policy of controlling inflation and other economic variables by lowering interest rates had positive effects until the September 11, 2001 terrorist attacks. Revenue estimates for fiscal years 2001 and 2002 for Detroit income and property taxes were based on an expanding economy. The economy contracted, and now the City is experiencing some financial difficulty. The General Fund is reporting a \$26.4 million deficit this fiscal year after six consecutive years of modest General Fund surpluses.

As of June 30, 2001, Fund Balance Reserved for Budget Stabilization had a balance of \$34.1 million. The Budget Stabilization designation was established to cover a General Fund deficit, to restore a reduction in the number of employees in a subsequent year's budget and to cover expenses arising because of a natural disaster. The Executive Branch plans to use a portion of this designation to cover this year's deficit. Any use this designation must also be approved by the Legislative Branch of City government.

On January 1, 2002 when Mayor Kwame M. Kilpatrick took office, it was projected that the City would face a deficit of approximately \$75 million for the fiscal year 2001-2002. The projected deficit was primarily a result of an economy driven decline in income tax revenue. In order to eliminate the deficit and allow for a balanced budget, Mayor Kilpatrick has instituted a deficit elimination plan that is inclusive of department budget cuts, overtime reductions and aggressive revenue collection efforts. Additionally, Mayor Kilpatrick has engaged leaders from the business community to collaborate on process re-engineering for some of the City's key departments.

Under the provisions of State Act 374 of 1996, all operating activities of the Thirty-Sixth District Court previously controlled by the State of Michigan were transferred to the City of Detroit. The City, in turn, challenged the constitutionality of this transfer under the provisions of the "Headlee Amendment," and is currently in litigation seeking a resolution of the claim.

Legislation to maintain the City's state revenue sharing at the current level of \$330 million annually for eight years and lower Detroit's income tax rate by 33% was approved by State lawmakers in December 1998. The residential rate will be lowered by one tenth of a percentage point in each of the next ten years starting June 30, 1999, while the non-resident rate will decrease by .5 of a percent over the same period. After the ten-year period, the residential rate will be 2% and the non-residential rate will be 1%.

Since January 1, 1994, the City has achieved ten positive adjustments in the credit ratings on its General Obligation bonds. Current ratings are "Baa1" from Moody's Investors Services, "A-" from Standard & Poor's, and "A" from Fitch IBCA.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The accounting and financial reporting policies of the City included in this CAFR conform to generally accepted accounting principles (GAAP) and reporting standards as promulgated by the (GASB). The financial statements of the General, Special Revenue, Debt Service, Capital Projects and Expendable Trust Funds are prepared on the modified accrual basis of accounting, whereby revenues are recorded when they become both measurable and available to finance expenditures of the current period. Expenditures are reported when goods and services are received and actual liabilities are incurred and become payable in the current period. The financial statements of the Enterprise and Pension Funds are prepared on the accrual basis of accounting whereby revenues are reported at the time they are earned and expenses are recorded when liabilities are incurred. Encumbrance accounting, under which purchase orders, contracts, approved requisitions and other commitments for the expenditure of funds are recorded to reserve that portion of the

applicable appropriation, is employed in the General, Special Revenue and Capital Projects Funds. Encumbrances are treated as a reservation of fund balance for these funds.

Effective January 1, 2001, Public Act 245 of 1999 was approved to amend Act 230 of 1972 of the State of Michigan Compiled Laws. The act requires the State of Michigan's local governments to establish reasonable fees which are required to operate the department responsible for building permits, examination of plans and specifications, inspection of construction undertaken pursuant to a building permit, and the issuance of certificates used for occupancy, and hearing appeals in accordance with this act. To comply with this act, in fiscal 2001 the City established the Construction Code Fund for operational and financial reporting purposes. This information is no longer reported in the General Fund as a result of establishing this Special Revenue Fund.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management.

Budgetary control is maintained at the appropriation level by the encumbrance of specific dollar amounts prior to the release of specific purchase orders and contracts to vendors. If these purchase orders or contracts result in an overrun of an appropriation balance, they are not released until additional appropriations are made available.

General-operation type purchase orders are controlled by a rejection of payments if they would result in an overrun of the appropriation. Open encumbrances are reported as reservations of fund balance in the General and various Special Revenue Funds.

GENERAL GOVERNMENTAL FUNCTIONS

General governmental revenues of the Primary Government, excluding other financing sources and revenues of the Trust and Agency Funds for general governmental functions, totaled approximately \$1.9 billion in fiscal year 2001, an increase of 2.88% over fiscal year 2000. Revenues from various sources for fiscal year 2001 and the increase (decrease) from the prior year are shown in the following tabulation:

Revenue Source	Fiscal Year	Percent of Total	In crease (Decrease)	
	2001		Over 2000	
	Actual		Actual	Percent
(In Thousands of Dollars)				
Property Taxes.....	\$ 234,769	12.43 %	\$ 6,358	2.78%
Municipal Income Taxes	341,004	18.06	(37,253)	-9.85
Utility Users' Tax	54,270	2.87	(235)	-0.43
Wagering Excise Tax	85,793	4.58	32,363	60.57
Other Taxes, Interest and Penalties	26,100	1.38	1,191	4.78
Licenses, Permits and Inspection Charges.....	28,824	1.53	(1,005)	-3.37
Shared Taxes and Grants	760,069	40.24	3,170	0.42
Ordinance Fines	22,151	1.17	(1,422)	-6.03
Revenue from Use of Assets (including Investment Income).....	60,541	3.17	15,321	33.88
Sales and Charges for Services.....	185,732	9.83	8,784	4.96
Other	89,587	4.74	25,603	40.01
Total	<u>\$ 1,888,840</u>	<u>100.00 %</u>	<u>\$ 52,875</u>	

Revenues from various local taxes represented 39.32% of total governmental revenues. This source of funding increased by \$2,424,000 from the previous year. The major factors contributing to this change were as follows: Property tax revenues increased \$6,358,000 due primarily to an increase in property values. Municipal income tax revenues decreased by \$37,253,000 due to slowing economy in the city. The Wagering Excise Tax increased tax revenues by \$32,363,000 due to the opening of the third casino during the fiscal year.

Revenues from Use of Assets increased \$15,321,000. The major increases were in the General Fund's earnings on investments (\$2,129,000), and Sale of Real Property (\$8,425,000). The General Debt Service Fund also had an increase in revenues of (\$3,547,000).

Sales and charges for services revenue increased \$8,784,000. The major increases and decreases were in the General Fund as follows:

Personal Services increased \$16,911,000 mainly in the Human Resources Agency 4,753,000, the Police Agency \$3,278,000, and the Non Departmental Agency \$5,896,000.

Other Fees increased \$7,779,000 primarily due to a net increase in casino fees \$4,607,000 and increases in Fire Agency emergency medical service fees \$2,903,000.

Electrical sales decreased \$8,011,000 primarily due to fewer customer service locations \$2,782,000, and retroactive rate adjustments \$1,486,000.

Other Departmental Sales decreased \$8,667,000 mainly due to a decrease in 36th District Court revenues from the State of Michigan.

The "Other" revenue source increased \$25,603,000. The major increases were in the Special Revenue Funds: Human Services Fund revenues \$9,183,000, and Library Fund \$6,723,000. These increases were offset in part by a decrease in the Capital Projects Fund-Capital Projects \$4,685,000.

Expenditures of the Primary Government, excluding other financing uses and expenditures of the Trust and Agency Funds, totaled approximately \$1.9 billion in fiscal year 2001, an increase of 5.99% over fiscal year 2000. Increase or (decrease) in levels of expenditures for major functions of the City over the preceding year are shown in the following tabulation:

Function	Fiscal Year	Percent of Total	Increase (Decrease)	
	2001		Over 2000	
	Actual		Actual	Percent
(In Thousands of Dollars)				
Public Protection	\$ 598,723	30.95%	\$67,583	12.72%
Health	170,703	8.83	6,041	3.67
Education	49,543	2.56	20,649	71.46
Recreation and Culture	67,393	3.48	(1,306)	-1.90
Economic Development	137,220	7.09	4,343	3.27
Transportation	15,787	0.82	5,979	60.96
Housing Supply and Conditions	96,393	4.98	10,673	12.45
Physical Environment	275,369	14.24	(7,471)	-2.64
Management	250,912	12.97	(77,563)	-23.61
Capital Outlay	145,426	7.52	79,574	120.84
Debt Service	126,981	6.56	812	0.64
Total	\$ 1,934,450	100.00%	\$ 109,314	

Expenditures for Public Protection increased \$67,583,000 due primarily to increased expenditures in the General Fund for police protection (\$50,082,000) and fire services (\$14,059,000), basically due to increased salary and fringe benefit costs.

Expenditures for Education increased approximately \$20,649,000. The Library Fund incurred storm and fire damage that approximated \$18.7 million in related repairs billed by the contractor.

Expenditures for Housing Supplies and conditions increased \$10,673,000. Major increases were in the Construction Code Fund (Special Revenue Fund) (\$24,335,000), which in prior years was reported in the General Fund as Building and Safety Engineering. The General Fund had an increase in expenditures at Planning and Development for approximately \$5,914,000 and a decrease in Building and Safety Engineering (\$20,068,000).

Management expenditures decreased \$77,563,000 due primarily to decreases in the General Funds' Non-Departmental agency (\$53,516,000), and Information Technology Services agency (\$37,457,000).

Capital outlay expenditures increased \$79,574,000 due primarily to increases in the General Capital Projects Fund for Planning and Development improvements (\$16,416,000), Recreation-Park Development (\$10,526,000), and non-departmental Casino Land acquisition (\$51,538,000).

FUND BALANCE OF GENERAL GOVERNMENT FUNDS

The undesignated fund balance of the General Fund had a deficit of \$26.4 million for the year ended June 30, 2001. This compares to a surplus of \$2.3 million for the prior year. The General Fund's fund balance also includes \$34.1 million in designated fund balance for budget stabilization. This fund balance is designated to cover a General Fund deficit, to restore a reduction in the number of employees in a subsequent year's budget, and to cover expenses arising from a natural disaster.

TAX VALUES AND LEVIES

Property tax collections in fiscal year 2001 were 85.93% of the adjusted tax levy, down 4.06% from the previous fiscal year. Cumulative collection ratios (reflecting collection of a given year's levy in all subsequent years) as of June 30, 2001, on net tax levies (after subsequent additions or deductions) for the last ten years are as follows (see Table 4):

Year Ending June 30,	Cumulative Collection Ratio to Adjusted Tax Levy	Year Ending June 30,	Cumulative Collection Ratio to Adjusted Tax Levy
1992.....	99.00%	1997	97.74%
1993.....	98.73	1998	97.06
1994.....	98.66	1999	95.64
1995.....	98.35	2000	92.70
1996.....	98.14	2001	85.93

Allocation of the property tax levy by purpose for fiscal year 2001 and the preceding two fiscal years is as follows (amounts per \$1,000/assessed value):

Purpose	2001	2000	1999
General Fund.....	19.9620	20.0000	20.0000
Garbage Disposal — General (Act 127 of 1976).....	2.9943	3.0000	3.0000
Debt Service.....	<u>8.7220</u>	<u>8.0950</u>	<u>8.1750</u>
Total City.....	31.6783	31.0950	31.1750
Library	<u>3.6331</u>	<u>2.6400</u>	<u>2.6400</u>
Total	<u>35.3114</u>	<u>33.7350</u>	<u>33.8150</u>

CAPITAL PROJECTS FUNDS

The Capital Projects Funds are comprised of the Capital Project Fund and the Urban Renewal Fund.

Proceeds of general obligation bond issues, designated grants, gifts and transfers used for the construction, acquisition, and renovation of capital facilities by the General Fund are accounted for in the Capital Projects Fund. Project costs are capitalized in the General Fixed Assets Account Group when substantially completed. During the 2001 fiscal year, the City did not issue any General Obligation Bonds. Authorized, but unissued, voter-approved bonds at June 30, 2001 totaled \$298.41 million.

The Urban Renewal Fund was established to account for the acquisition and site preparation of property for future development. The City and the Federal Government provide the financing of most projects. The Urban Renewal Fund had revenues and other financing sources of \$19.3 million with expenditures and other financing uses of \$20.3 million. Special Housing Programs (\$18.6 million) accounted for nearly 92% of outlays from this fund.

PROPRIETARY FUNDS

Enterprise Funds account for operations of governmental facilities operated in a manner similar to commercial enterprises where the intent is to recover, in whole or in part, through user charges, the costs or expenses (including depreciation) of providing goods or services to the general public on a continuing basis. The City's primary government enterprise operations are comprised of the Airport, Automobile Parking, Housing, Sewage Disposal, Transportation and Water Funds. The City's discretely presented Proprietary Fund Type component units are comprised of the Detroit Transportation Corporation and the Greater Detroit Resource Recovery Authority.

FIDUCIARY FUNDS

The Fiduciary Funds consisting of the Retirement Systems and the Trust and Agency Funds account for the activities for which the City has an agency or trustee responsibility.

The Retirement Systems are comprised of the General Retirement System which covers substantially all employees other than police officers and firefighters who are covered by the Policemen and Firemen Retirement System.

According to the most recent actuarial reports (as of June 30, 2000), the total Actuarial Accrued Liability (AAL) of the General Retirement System approximated \$3.1 billion (with an unfunded AAL of \$174.6 million), and the total AAL of the Policemen and Firemen Retirement System approximated \$3.3 billion (all of which is funded with excess funding of \$662.1 million). During that same reporting period, the General Retirement System experienced a net increase of \$175.6 million in the AAL. For the Policemen and Firemen Retirement System the net increase was \$123.4 million.

The Trust and Agency Funds are comprised of four funds with total assets of approximately \$53.8 million. The Trusts Funds include the Employee Benefit, Employees Disability Income Protection and other Trust Funds. The Agency Fund includes the Condemnation Awards Fund.

GENERAL FIXED ASSETS

The general fixed assets of the City are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of Enterprise Funds. As of June 30, 2001, the general fixed assets of the City amounted to approximately \$1.67 billion. All fixed assets are valued at historic cost, or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the donated date. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are excluded from the general fixed assets. Depreciation of general fixed assets is not recognized in the City's accounting system.

Some of the major areas of concentration of general fixed assets in the City are as follows:

Cultural and Recreational	\$521,646,999
Municipal Facilities	367,649,113
Physical and Economic Development	320,305,414
Municipal Services	93,118,324
Public Protection	70,953,589
Information Technology Services	64,422,254

DEBT ADMINISTRATION

The ratio of net general tax-supported debt to assessed valuation and the amount of general tax-supported debt per capita are indicators of the City's debt position useful to municipal management, citizens, and investors. This data for the City at the end of the 2001 fiscal year is as follows:

	<u>Amount</u>	<u>Ratio of Net Debt to Taxable Assessed Value (50.0% of Present Market Value)</u>	<u>Ratio of Debt to Present Market Value</u>	<u>Debt Per Capita</u>
General Tax Supported Debt (Net)	\$ 938,080,333	12.28%	6.14%	\$ 986.13

The above schedule does not include loans, bonds, and notes that are not supported by the full faith and credit of the City, such as revenue bonds, Federal loans, or loans guaranteed by the Federal Government.

Outstanding general obligation bonds at June 30, 2001 totaled \$975,416,744.

The following tabulation presents bonds issued during the past five fiscal years which represent general obligations of the City:

<u>Date of Issue</u>	<u>Amount</u>	<u>Average Life in Years</u>	<u>Effective Interest Rate</u>	<u>Interest Cost Per Borrowed Dollar</u>
* August 1, 1995	\$ 50,000,000	12.94	6.71	0.85
August 1, 1995.....	183,450,000	9.15	6.40	0.58
March 1, 1996.....	406,800,000	8.15	5.14	0.48
November 1, 1996	34,300,000	11.88	5.16	0.65
November 1, 1996	23,325,000	15.67	5.56	0.85
May 1, 1997.....	16,965,000	15.53	5.83	0.87
December 15 1997.....	44,250,000	10.63	5.04	0.62
December 15, 1997.....	35,805,000	10.63	5.04	0.55
April 1, 1999.....	44,100,000	12.36	5.05	0.61
November 15, 1999	45,000,000	12.54	5.67	0.71
February, 2000.....	10,605,000	6.25	4.95	0.33

* These bonds have been fully or partially refunded.

Current ratings as of June 30, 2001 on various bonds issued by the City and its related authorities are as follows:

	<u>Moody's Investors Service</u>	<u>Standard & Poor's</u>	<u>Fitch Investors Service</u>
General Obligation Bonds (Unlimited Tax)	Baa1	A-	A
* General Obligation Bonds (Unlimited Tax)	Aaa	AAA	AAA
General Obligation Distributable State Aid Bonds	Aaa	AAA	Not Rated
Greater Detroit Resource Recovery Authority			
Revenue Bonds	Baa1	AAA	AAA
Economic Development Corporation:			
Resource Recovery Revenue Bonds	A1	A	A
* Resource Recovery Revenue Bonds	Aaa	AAA	AAA
Water System Revenue Bonds	Aa3	A	A+
* Water System Revenue Bonds	Aaa	AAA	AAA
Sewage Disposal System Revenue Bonds	A1	A	A
* Sewage Disposal System Revenue Bonds	Aaa	AAA	AAA
* Detroit Building Authority Parking and Arena System			
Revenue Bonds	Aaa	AAA	AAA
* Detroit Building Authority (District Court Madison			
Center)	Not Rated	A	Not Rated
Convention Facility Limited Tax Revenue			
Bonds — Cobo Center	Not Rated	A	Not Rated
Local Development Finance Authority Tax			
Increment Bonds (Jefferson/Conner Project)	A1	Ba1	Not Rated
Downtown Development Authority Tax Increment Bonds ...	Aaa	A-	A-

* Payment guaranteed by municipal bond insurance policy or letter of credit.

CASH MANAGEMENT

The City's investment policy attempts to maintain and protect investment principal while striving to maximize total return on the portfolio consistent with risk limitations pursuant to guidelines set forth in Michigan Act 20, Public Acts of 1943 as amended.

The City has always maintained a conservative investment philosophy and as a result of recent amendments to Michigan Public Act 20, have established strict investment guidelines for its investment programs.

No investment shall have a maturity longer than ten (10) years from the date of the investment. The City's longest investment has a maturity date of November 15, 2003.

The following information pertains to the City's General Fund:

*Average Monthly Investment Balance	\$ 146,046,226
Investment Earnings Fiscal Year 2001	\$ 13,708,668
Investment Earnings Fiscal Year 2000	\$ 11,579,636
Percent Increase in Earnings for Fiscal Year 2001 versus 2000	18.39%
*Average Daily Cash Balance	\$ 2,858,236

*Balance at various local banks as compensating balance for the banks.

RISK MANAGEMENT

The City currently self-insures approximately 80% of the City's insurance needs.

Commercial insurance is purchased for specialized exposures such as aviation hull and liability, airport premises liability, steam boiler and other certain property risks to name a few.

Automobile liability losses are self-insured. However, the City does have commercial auto insurance for its non-tax-supported agencies, namely the Water and Sewerage Department, Housing Commission, Municipal Parking Department, Library Department and the Department of Transportation (non-bus coaches only). Claims adjusting services for self-insured automobile liability and property claims are administered by a private service company. Automobile liability claims under the State of Michigan Automobile No-Fault Act for all non-tax supported agencies are administered by the City Finance Department (DOT bus passengers are excluded).

General liability and property losses are self-insured with the exception of some commercial insurance for a few City departments. Self-insured general liability and property losses are processed by the City's Law Department.

Workers' Compensation is currently self-insured and self-administered under the rules and regulations of the State of Michigan Labor Division. Claims administration is handled in-house by the Finance Department, Risk Management Division. Legal cases are handled by the City's Law Department.

Workers' Compensation case medical management, rehabilitation services and medical bill reviews are currently handled by professional claims management firms under the auspices of the Risk Management Division of the Finance Department.

As of June 30, 2001, the City's Risk Management Fund had a balance of approximately \$44.8 million. Covered losses are liabilities to third parties for any loss or damage arising out of negligence, tort, contract or otherwise accruing and payable by the City, and for which insurance coverage could be provided by a third party insurer, but for which the City has determined to self-insure. Included among other covered losses are liabilities for workers' compensation. Procedures concerning proactive safety training, utilizing the favored work concept, retraining injured employees, reducing slip and fall claims, monitoring property damage claims and centralizing all workers' compensation and safety functions were developed and instituted. Professional services contracts are currently in place for actuarial services and medical case review.

AUDITS

The City Charter requires the Auditor General of the City to audit the transactions of all City agencies at least once every two years. The Auditor General is appointed by the City Council, the Legislative Branch of City Government for a ten year term.

State laws require the City to have its financial statements audited by an independent, outside auditor once every five years. However, beginning with fiscal year 1980, the Mayor and City Council agreed to have the City's financial statements audited by an independent outside auditor annually. The auditor's report on the general purpose financial statements is included in the financial section of this report. In addition to the above, the City of Detroit must comply with the requirements of the U. S. Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments and non-profit organizations*.

ACKNOWLEDGMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire accounting staff and other members of the Finance Department. We would like to express our appreciation to the Finance Department staff and all members of City agencies and the Mayor's Office who assisted and contributed to its preparation. Our thanks also extend to the members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible manner.

Respectfully submitted,

SEAN K. WERDLOW
Chief Financial Officer/Finance Director



JOSEPH L. HARRIS, CPA, CIA
AUDITOR GENERAL
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AUDITOR GENERAL'S LETTER

January 9, 2002

The Honorable Mayor Kwame M. Kilpatrick
and Members of the City Council
City of Detroit, Michigan

The general purpose financial statements included in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001, were audited by KPMG LLP, and Alan C. Young and Associates, P.C., under contract with the City of Detroit, Auditor General. The audit of these financial statements and the resulting Auditors' opinion satisfies the requirements of the City Charter under Section 4-205.

Based on the results of their audit, KPMG LLP, and Alan C. Young and Associates, P.C., have issued their report on the aforementioned financial statements, dated December 21, 2001.

Respectfully,

Joseph L. Harris
Auditor General

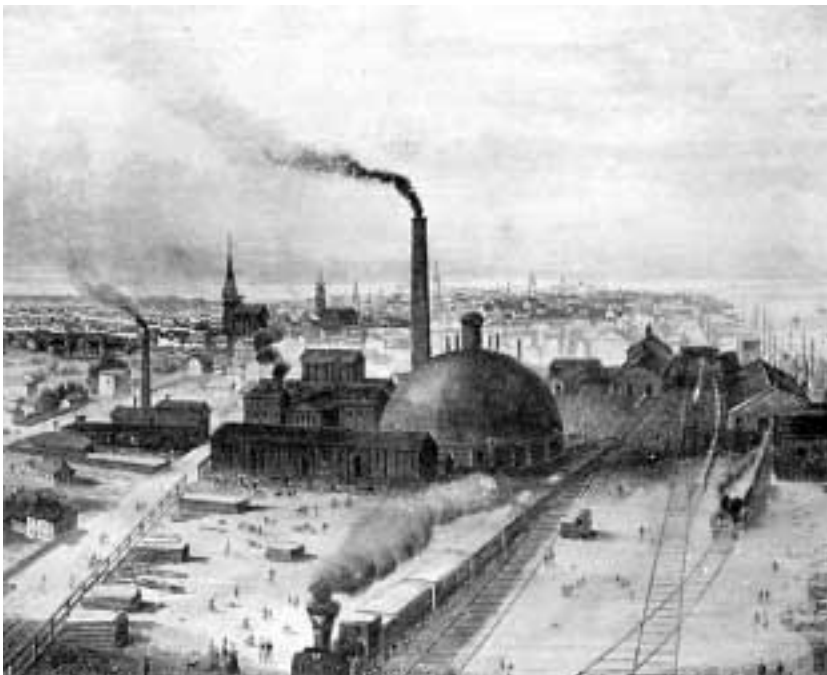
DETROIT 300

1701-2001



1805

The great fire of 1805 destroyed the fledging community, which was built largely of wood. The fire, which is commemorated in Detroit's city seal, resulted in a completely new start for the town with a new street plan designed by Michigan Territorial Judge Augustus B. Woodward. The reborn Detroit would become an incorporated city in 1806.



1860

Bird's-Eye View of the City of Detroit in 1860. From a wood engraving, this view shows the bustling riverfront and the Michigan Central Railroad roundhouse where train engines were rotated onto different tracks. In the distance one can count at least seven church steeples. Detroit had a population of 45,619 people in 1860.

Courtesy of Detroit Public Library —
Burton Collection, *Images of
America — Detroit, 1860-1899* by
David Lee Poremba.

Photos courtesy of City of Detroit — Communications and Creative Services Department